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December 14, 1998

VIA HAND DELIVERY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: Ex Parte Presentation
CC Dkt. No.s 98-147, 95-20, 98-10, 96-61/98-183, 96-98

Dear Ms. Salas:

In accordance with the Commission's *ex parte* rules, this letter is to notify you that the Commercial Internet eXchange Association ("CIX") met on Friday, December 11th, with Lawrence Strickling, Carole Matthey, and Jordan Goldstein of the Commission's Common Carrier Bureau. Representatives for CIX at the meeting were Barbara Dooley, Richard Whitt, John Montjoy, Farooq Hussein, Scott Purcell, Ronald Plessner, and me.

During the meeting, CIX presented its positions on the issues presented in the above-referenced dockets, which was consistent with CIX's comments and reply comments in CC Docket No. 98-147, as well as the attached bullet-sheet, the attached December 10 *ex parte* letter, and "Consumers Need ISP Choice" statement. The bullet sheet, the December 10 *ex parte* letter, and the "Consumers Need ISP Choice" statement were provided to each FCC staff person at the meeting. CIX explained its position on ISP choice, and the need for the FCC to take a comprehensive approach to advanced services regulation by revamping the ISP protections (such as in the Computer III FNPRM) at the same time that it establishes a regulatory model for advanced services. CIX opposes the principles of the ILECs' December 7, 1998 *ex parte* letter in CC Dkt. No. 98-147; CIX supports a "true" separate subsidiary approach, as described in its comments, and strongly supports proposed rules to bring more CLEC competition to the

Ms. Magalie Roman Salas
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marketplace. CIX also explained that the CLEC certification process is not a long-term solution for most ISPs, due to the expense, the lack of cooperation by ILECs, and the fact that most ISPs have very limited resources. CIX briefly articulated its view on the separate subsidiary model, as explained in the attached bullet sheet and CIX's comments.

In addition, CIX presented its concerns that some ILEC bundling practices, which combine DSL services with ISP service and/or DSL modems, are abusive. In CIX's view, independent ISPs should be offered access to the telecommunications on the same terms and rates as ILEC-affiliated ISPs, and the bundling practices interfere with open competition because the ILEC subsidizes its ISP service through bundled products.

Finally, CIX briefly outlined its support for a reciprocal compensation scheme that does not disrupt existing agreements and state decisions, as CIX has previously articulated in CC Dkt. No. 96-98.

Please find attached 11 copies of this letter for inclusion in each of the above-referenced dockets. Should you have any questions, please contact the undersigned.

Sincerely,



Mark J. O'Connor
Counsel for the Commercial Internet
eXchange Association

cc: Lawrence Strickling
Carol Matthey
Jordan Goldstein

I. Regulatory Safeguards to Ensure a Competitive ISP Market Must Be In Place As ILECs Pursue an Integrated Approach to Advanced Services

- * Most ILECs may choose an integrated approach, and not a separate subsidiary approach, to deployment of advanced telecommunications and ADSL. However, FCC's framework for ISP regulatory safeguards under the integrated approach – Computer III FNPRM – remains unresolved.
 - Better access to underlying telecom elements will improve ISP choice.
 - Decentralized nature of Internet and quick response to market demand necessitate unbundling.
 - "All or nothing" access to ILEC's is contrary to decentralized nature of Internet.
 - The Internet separates services from physical networks, allowing industries to grow and innovate independently. Unbundling allows independent industry to offer quick response/roll-out of consumer products.
 - Strengthened ONA standards and functional access or collocation for ISPs will prevent anti-competitive and discriminatory behavior and will promote efficient use of network.
 - Computer III reform must move forward together with Section 706 proceeding for strong ISP protections/access to eliminate discrimination and allow ILECs to participate in deregulated markets with the protections of competitive safeguards against ILEC abuses.
 - Because ILECs' rate of future advanced services deployment may be slow, ISP rights to underlying telecommunications would spur advanced services deployment to consumers.

II. Separate Subsidiary Requirements Must Ensure That the ILEC Affiliate is Divorced From ILEC Monopoly Advantages.

- * CIX believes in the emergence of multiple providers of local high-speed telecommunications services. The separate subsidiary approach advances consumer interests only if the ILEC-affiliate is truly another competing provider in the market, with no market advantages due to its affiliation.
- * *Marketing Advantages:* Use of the ILEC's brand-name or CPNI, as well as joint marketing, should be prohibited. If separate subsidiary resells ILEC voice service, then all CLECs should have the same rights.
- * *Ownership:* Parent holding company should not be able to finance separate subsidiary on terms that are less than "arm's length." Rather, parent company should be subject to the same credit/financing restrictions as the ILEC vis-à-vis the separate subsidiary. To better ensure "arm's length" transactions and to minimize discriminatory pricing by the separate subsidiary, the separate subsidiary should have minority ownership share (i.e., 10% or 20%) held by third-party.

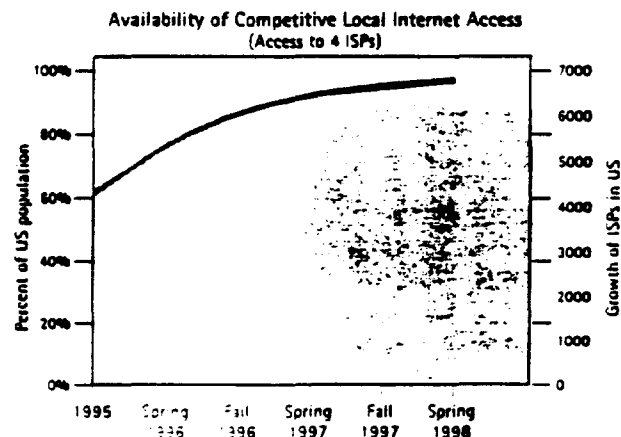
- * ***ILEC Transfers to Affiliate:*** Separate subsidiary should have to pay market value for all transfers of facilities or other property from the ILEC. Equipment transferred should be limited to DSLAMs, packet switches.
- * ***Unbundled Access to Separate Subsidiary's Facilities:*** FCC should establish a transition period so that CLECs can continue to use UNEs of the separate subsidiary. Otherwise, customers may experience dislocation, or competition may be derailed, in transition to new rules.

III. ISP Choice is Essential Under Both the Integrated and Separate Subsidiary Approaches

- * Consumers must maintain their ability to choose their preferred ISP as ADSL and other technologies are deployed, regardless of whether the ILEC offers services in an integrated manner or through a separate affiliate.
 - Independent ISPs have been a primary factor in the proliferation of the Internet. Today there are over 6,500 ISPs.
 - The vast majority of consumers continue to get their Internet services from independent ISPs, and not the offerings of the ILECs.
- * The intense competitiveness of the ISP market offers consumers a diverse array of services and service providers, and must be preserved.
 - The diversity of Internet services offered by ISPs provides consumers with a broad range of real service choices.
 - Over 95% of the U.S. population has local access to at least 4 or more ISPs in a market.
- * Technological advances in the telecommunications underlying Internet access or regulatory changes (e.g., separate data subsidiary) should not be leveraged by ILECs to eliminate consumer choice of Internet services or force ISPs to assert CLEC status to avoid discrimination.
 - ILEC marketing and technology practices threaten ISP choice and competition: bundling CPE, ISP and ADSL services; ISP "partner" programs.
 - "Separate subsidiary" model should provide protection for consumer choice of ISP.
- * ISP choice means that consumers should be able to choose their ISP on terms equivalent to those of the ILEC affiliated ISP.
- * ISPs should be able to obtain connectivity from ILECs, or their affiliates, in a non-discriminatory and efficient manner.
 - ILECs should not be permitted to bundle transport services with ADSL offerings.
 - ILEC marketing practices should not discriminate against independent ISPs.

**IV. RBOC InterLATA Entry Into the Internet InterLATA Services Market
Must Follow the Statutory Scheme of Sections 271 and 272**

- * Level of demand for Internet bandwidth demonstrates that the Internet works well, there is no showing of network congestion or market "failure" to be resolved through government intervention or LATA modifications.
- * Carriers demonstrate significant deployment/investment in backbone capacity.
 - Internet industry is experiencing period of unprecedented growth.
 - Number of Internet hosts increased from 1.3 million in 1993 to 36.7 million in 1998.
 - There are over 6,500 ISPs in the U.S. and over 79 million Internet users.
 - One survey estimates that investment to the Internet's network infrastructure increased by 125% between 1996 and 1997.
- * LATA modifications for RBOCs to enter the interLATA market would conflict with the Section 271 process of incentives for RBOC compliance with local competition obligations.
- * LATA modifications are inappropriate where RBOC essentially wants to enter the interLATA services market. The Commission's authority to provide LATA "modifications" does not extend to granting premature entry into the interLATA markets.



The threat to competition: ILEC marketing practices that aim to leverage the ILECs' market power in the local loop to advantage their own affiliated ISPs.

Policy makers must combat this threat to competition by enforcing the law: demand ILEC compliance with the rules requiring unbundling of the local loop.

ILECs roll out new products such as ADSL only when forced to respond to marketplace challenges such as the deployment of cable modems.

The FCC's proceedings on Section 706 of the '96 Act and Computer III are perfect opportunities to reinforce the robust competitiveness of the ISP market.

facilities will diminish customer choice and competition, and will accrue to the interest of the ILECs.

ILEC marketing and deployment practices already threaten ISP choice and competition. Some ILECs are unfairly "bundling" their ISP service with telecommunications service and/or customer equipment to make it difficult and uneconomic for consumers to have separate ISP choices. To maintain ISP choice, customers should be able to select their preferred ISP, and then have ILEC telecommunications services provided on the same terms the ILEC-affiliated ISPs offers to its customers. ILECs have also announced plans to deploy ADSL service in ways that stifle competition by independent ISPs. ILEC partnering programs, for example, offer ISPs access to underlying ADSL telecommunications at a price that eliminates ISPs' ability to offer a variety of high-speed Internet services at a competitive rate. ILECs also bundle local transport services (ATM and Frame Relay) with ADSL, so that ISPs must buy both services from the ILEC in order to offer customers the benefits of high-bandwidth DSL. This bundled service raises costs for independent ISPs and precludes CLEC competition for transport services.

The Section 706 and Related Proceedings and Computer III Reforms Must Be Considered Together for More Efficient and Reasonable ISP Access to Advanced Telecommunications

More efficient access to the underlying telecommunications elements that customers and ISPs use to communicate with each other will greatly improve ISP choice. Currently, ILECs offer customers and ISPs "all or nothing" access to their networks: ISPs must buy into the transport service and customers must purchase the ILEC DSL offering. The Internet is a living demonstration that an "all or nothing" access regime is not optimal. The decentralized Internet separates services from physical networks, allowing growth and innovation, independent from owners of the physical network. Unbundling yields innovation based on market demand, and allows independent industry to offer quick response/roll-out of consumer products.

Section 706 of the Telecommunications Act of 1996 requires the FCC to encourage the deployment of advanced telecommunications. ILEC and ISP incentives to deploy Internet services may be different, and the regulatory framework should allow both industries to co-exist for the benefit of consumers. Although ISPs have the ability and incentive to develop a myriad of advanced services to stay ahead of their competition, ILECs do not have the same incentives when seeking to control both the network and the services offered. ILECs are slow to deploy advanced services and deployment of these services is a response to competition rather than action to stay ahead of it. For example, ILECs have deployed ADSL in reaction to cable companies' rollout of high-speed Internet access. Fostering ISPs' innovative ability encompasses allowing non-discriminatory and efficient access to ILEC facilities, thereby permitting ISPs to provide cost-effective, high-speed access and to continue to develop advanced services.

The FCC Section 706 and related initiatives must encompass a comprehensive approach to the issues of advanced services for all Americans. It must have as a fundamental goal to enhance ISP competition and choice. Several precepts will ensure competitive and nondiscriminatory behavior and promote efficient use of ILEC networks. The FCC's Computer III decision advances several important procompetitive policies, including ISP access to network elements and nondiscrimination obligations. Federal action finalizing the Computer III reforms will deter ILEC discrimination against independent ISPs, and allow ILECs to participate in a deregulated market. In addition, strengthened federal ONA standards and functional access or collocation are effective means to ensure a competitive environment.

This should not mean ISP regulation. The ISP industry today is highly competitive and does not need direct regulation to protect consumers' interests. ILEC control of access to the customer is a separate and distinct regulatory issue. It emanates from a monopoly environment, where networks were financed by ratepayers, not by competitive forces. ISP regulation would force ISPs into becoming CLECs or partnering with CLECs to gain access to the unbundled network elements. Such a requirement would raise barriers to entering the ISP market and eliminate competition from smaller ISPs. Moreover, such a scheme would not serve the goals of providing faster Internet access and more customer choice to places where CLECs do not exist, including rural areas. ISP regulation, rather than allowing easier access to ILEC facilities, does nothing to further customer choice and a competitive environment.

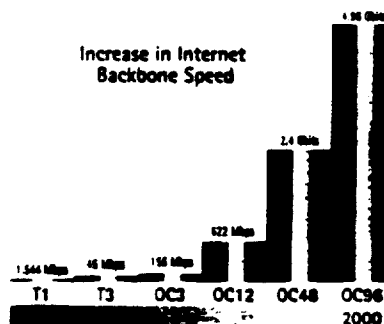
Regulation of ISPs
is unnecessary and
unwarranted.

Internet Backbone Regulation Would Be Counterproductive to Deploying Advanced Services

As the current level of demand for Internet bandwidth from businesses and other customers demonstrates, the Internet responds well. The market has reacted positively to circumstances where additional capacity is needed. In fact, the Internet industry is experiencing a period of unprecedented growth. Bandwidth doubles every four to six months, as compared to three years ago when it doubled every year. Furthermore, Internet backbone providers have demonstrated a significant investment in backbone capacity. One survey estimates that investment in the Internet's network infrastructure increased by 125% between 1996 and 1997. In addition, Internet service providers are continually upgrading their networks to meet network demands and offer innovative services. As this statistical data underscores, regulation of the backbones, as a means to enlarge capacity, would be counterproductive.

The market is operating smoothly and well to respond to increases in demand for bandwidth on the Internet backbones.

Regulation of Internet backbones would add confusion, cost, and inflexibility to Internet arrangements that work well today. Congestion on the Internet is a complex issue to which the industry has responded with solutions without government intervention. There has been tremendous additional capacity and investment in backbone services. The industry is well positioned to provide even more efficient and innovative services arrangements in the future.



ILEC Relief Under Section 706 and Related Proceedings Is Not Warranted

An ISP's ability to deploy advanced services is limited by access to the ILEC's "last mile"—the connection that ultimately reaches the customer's location, whether that location is a residence or a business. Currently, ILECs control this connection, and the terms and conditions of access offered by the ILECs to competitors, including ISPs, stifles advanced services deployment. ILEC's boast of their control of the last mile.

ILEC relief under Section 706 and related proceedings is unwarranted; their requests for relief are at odds with the goals of the Act.

There is no public policy served, and advanced telecommunications will be deterred, by providing ILECs relief from their obligations to open their local markets through access to their facilities. The competitive safeguards of the 1996 Telecommunications Act are soundly premised on opening local markets to competition, which will yield lower prices and more service choices for customers. These objectives complement the Act's advanced services goal because only with new entrant competition will ILECs invest in and rollout new advanced services to the public. Many of the ILECs' requests for regulatory relief, however, are fundamentally at odds with these objectives and the purpose of the Act. Experience indicates that these obligations have not hampered the ILECs from deploying advanced services, including ADSL, where necessary to meet competition. Further implementation and enforcement of the Act will continue to advance the Act's objectives, and hasten the day of a competitive advanced services market for all Americans.

- **ISP is a competitive industry and ISP choice must be maintained.** Access to the telecommunications networks by the over 6,500 ISPs across the country drives innovation, quality services, and deployment of advanced telecommunications services, and accrues to the benefit of businesses and individual consumers.
- **ILEC practices threaten the competition ISPs provide and the choice they offer.** There is an attempt to use their dominance in the local market and leverage it in the ISP market, which will harm competition.
- **The FCC's Section 706 initiative must encompass a comprehensive approach,** including Computer III reforms, to the deployment of advanced services.
- **ILEC relief from the obligation to open networks is not warranted.**
- **Regulation of Internet Backbones would be counterproductive.**

An affiliated ISP is a service provider that is owned or controlled by, or is under common ownership or control with, an ILEC.

The Internet backbones are a set of paths that local or regional networks or ISPs connect to pass Internet traffic to locations for which they do not have a direct connection.

The FCC's 1986 Computer III decision provided for a number of competitive incentives as a condition of ILEC integrated entry into the enhanced or information services business. Computer III established nondiscrimination obligations, open network architecture, reporting requirements, and access provisions designed to preserve a vibrant and competitive information service industry. Further review of the Computer III is currently pending before the FCC, after it was remanded from the U.S. Court of Appeals for the Ninth Circuit.

[formerly known as ESP (Enhanced Service Provider)] An Information Service Provider is a company that offers its users the capability to generate, acquire, store, transform, process, retrieve, utilize or make available information via telecommunications.

An Internet host is a term used to describe any computer that has full two-way access to other computers on the Internet. Generally, this term refers to a device or program that provides services to some smaller or less capable device or program.

(Internet Service Provider) An ISP is a company that provides individuals, small businesses, and other organizations with access to the Internet and other related services such as email accounts, Web site building and hosting.

(Open Network Architecture) As part of Computer III, the FCC requires the Bell Companies and GTE to provide open access to the unbundled elements that make up telecommunications services for use by competing information service providers, including ISPs. ONA was intended for competing providers to use the ILEC network in innovative ways and to require competing providers to pay for only those parts of the ILEC network that they need to use.

¹Shane Greenstein, *The Tale of Two Frontiers*, (October 1998) found at <<http://skew2.kellogg.nwu.edu/~greenst/research.html>>.

MAXIMUM COMMUNICATIONS: It's What Follows a Tough Act

US INTERNET SERVICE PROVIDERS ALLIANCE

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December 10, 1998

STAMP IN

EX PARTE

VIA HAND DELIVERY

The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, DC 20554

Re: CC Docket No. 98-147

Dear Mr. Kennard:

This ex parte letter is submitted by the undersigned competitive telecommunications and information service companies and associations in response to the joint filing submitted in the above-referenced proceeding on December 7, 1998 by the largest incumbent local exchange carriers (four of the five Regional Bell Operating Companies ("RBOCs") and GTE), and certain computer companies. We urge the Commission to reject this proposal as the latest attempt to undermine the statutory mandates and pro-competitive promise of The Telecommunications Act of 1996 ("1996 Act"), and extend the RBOCs and GTE's local bottleneck to Internet services.

In essence, the proponents' ex parte letter argues that the largest ILECs require a wholesale waiver of key elements of the 1996 Act in order to have the necessary economic incentives to deploy high-speed broadband Internet access technologies such as Digital Subscriber Line ("DSL"). The largest ILECs offer four "concessions," each subject to various technical, economic, and timing limitations: (1) CLECs can utilize collocation for advanced services (common cage, virtual, physical, or cageless, of the ILEC's choosing); (2) CLECs can utilize DSL-capable loops as unbundled network element ("UNEs"); (3) the ILECs' integrated provision of DSL services are subject to existing nonstructural safeguards; and (4) the ILECs' advanced services offerings will not discriminate against unaffiliated ISPs.

In exchange for these "concessions," the RBOCs and GTE would receive significant relief from applicable legal requirements, including: (1) no provision of DSL electronics as UNEs; (2) no resale of DSL services at any discount; (3) unlimited transfer of ILEC assets, employees, and services accounts to separate affiliates for up to 12 months; (4) no significant separation requirements; (5) deregulation and detariffing of advanced services rates once half of residential lines have access to DSL services; and (6) granting the RBOCs liberal waivers of interLATA boundaries for data services.

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On its face, this proposal is a sham. On legal grounds, this proposal blatantly violates the Act. By "promising" to abide by existing nonstructural safeguards and Computer III nondiscrimination requirements, and to grant competitors access to unbundled loops and collocation rights already required by the 1996 Act, the RBOCs and GTE give up nothing. Instead, however, the largest ILECs gain a "get out of jail free" card from the most critical pro-competitive mandates of the Act. This hardly seems like a fair bargain, especially for consumers, who will be denied choice, innovation, reasonable prices, and the other tangible benefits of competition.

Furthermore, the large ILECs' "lack of incentives" argument is baseless. The Commission itself has assembled an ample public record proving the futility of these claims. First, the supposed difficulties of providing advanced services such as DSL do not involve building brand-new data networks; instead, existing copper loops and telephone plant are being utilized along with DSLAMs and end user modems. This new equipment is relatively inexpensive and certainly can be deployed by the RBOCs and GTE on a timely basis to most ILEC central offices under existing rules. The competitive deployment of DSL service is not hindered by equipment costs or network upgrades, but rather the fundamental inability of CLECs to obtain reasonable cost-based access to the ILECs' equipment and facilities. The large ILECs also ignore the fact that CLECs must fully compensate the ILECs for the right to utilize DSL-equipped loops, DSL electronics, collocation space, and interoffice facilities. Moreover, contrary to their rhetoric, the RBOCs and GTE already are deploying DSL in response to the perceived competitive threat from cable modems.

More importantly, the proposal clearly violates the 1996 Act. As the FCC has already correctly concluded this past August:

Section 251(c)(3) requires these ILECs to provide CLECs with unbundled network elements, including DSL-capable loops and accompanying operational support systems ("OSS"), as well as all facilities and equipment used to provide advanced services (such as DSLAMs);

Section 251(c)(4) requires these ILECs to offer advanced services such as DSL for resale at wholesale rates;

Section 251(c)(6) requires these ILECs to provide competitors with just, reasonable, and nondiscriminatory access to collocation space in order to provide advanced services.

Section 271 prohibits the RBOCs from providing telecommunications or information services across LATA boundaries without meeting the requirements of Sections 271 and 272 of the Act.

Private parties cannot overturn these provisions of the law.

It is the free market, and not government, that creates incentives for companies to invest in and deploy new technologies and services. It is the market, and not government, that rewards risk. But where there is not a free market, and instead only a monopoly market like the large ILECs have today, government must do what it can to curb that monopoly and maximize the conditions for competition.

In many respects, this proposal is the complete opposite of what the Internet itself represents: openness, innovation, competition, and freedom of choice. Perhaps this explains why, even though these RBOCs and GTE and their allies claim to speak on behalf of Internet providers and Internet users, neither of these constituencies is present at the signature line. It is disappointing that these computer companies have joined the RBOCs and GTE in their proposal. How ironic it is that their proposal to "solve" this "problem" does not even include those it purports to serve - there are no consumer groups, no user groups, no competitive local exchange carriers, and no Internet service providers.

In the view of the undersigned, the key problem facing American consumers is not, as these companies claim, the pro-competitive mandates of the 1996 Act, but rather their continuing refusal to abide by those mandates. The only problem here is the large ILECs' local loop bottleneck, and no amount of deal-making, no matter how big the players, can change that reality. The only way to rid American consumers of that bottleneck and offer all the benefits and services backed up and waiting behind that last mile, is, plain and simple, to enforce the 1996 Act.

In accordance with the Commission's ex parte rules, two copies of this letter will be submitted today to the Commission's Secretary's office.

Sincerely,

UNITED STATES INTERNET SERVICE PROVIDERS ALLIANCE

Barbara A. Dooley
President
Commercial Internet eXchange Association

David Jemmett
Chairman
Arizona Internet Access Association

Michael Eggle
President
Internet Providers Association of Iowa
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Joseph Marion
Executive Director
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William L. Schrader
Chairman and Chief Executive Officer
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Eric W. Spivey
Chairman and Chief Executive Officer
Netcom

Carla Hamre Donelson
Vice President & General Counsel
Verio

Richard J. Devlin
Executive Vice President
General Counsel & External Affairs
Sprint

cc: **Commissioner Susan P. Ness**
Commissioner Harold W. Furchtgott-Roth
Commissioner Michael K. Powell
Commissioner Gloria Tristani
Katherine Brown, Chief of Staff, Chairman Kennard
Larry Strickling, Chief, Common Carrier Bureau
Dr. Robert Pepper, Chief, Office of Plans and Policy

Chad Kissinger
President
Texas Internet Service Providers Association

Dax Kelson
President
Coalition of Utah Internet Service Providers

Gary Gardner
Executive Director
Washington Association of Internet Service Providers

and the following Companies and Associations:

Cronan O'Connell
Acting President
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Services

James W. Cicconi
Senior Vice President
Government Affairs and Federal
Policy, AT&T

Rachel Rothstein
Vice President
Regulatory and Government Affairs
Cable & Wireless

Genevieve Morelli
Executive Vice President & General
Counsel
Competitive Telecommunications
Association

Dhruv Khanna
General Counsel and Vice President
Covad Communications

Scott Purcell
President & Chief Executive Officer
Epoch Networks

Riley Murphy
General Counsel
e.spire Communications

Jonathan E. Canis
Kelley Drye & Warren LLP
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Intermedia Communications

Jonathan B. Salts
Chief Policy Counsel
MCI WorldCom

Deborah Howard
Executive Director
Internet Service Providers' Consortium